

PUC Response to Little Hoover Commission Questions June 3, 2005

1. What does PUC do now with respect to generation, transmission and natural gas? How much of this would remain if Plan became effective?

Existing Responsibilities -- Generation

The PUC oversees approximately \$10 billion of IOU power costs annually

- Approve and oversee utility procurement plans (unchanged by Governor's proposal)

<i>Procurement transactions include energy and capacity transactions, gas purchases, and gas hedging.</i>

- Review and approve utility contracts for power
- Ensure utility compliance with Renewable Portfolio Standard in procurement efforts.

PUC approval gets new generation plants built

- Recent examples: Otay Mesa, Palomar, Mountainview, Ramco.

PUC oversees the Ratemaking for utility fuel and power procurement

- Utility procurement costs are recovered through generation rates established by the PUC.
 - Distributes costs among rate classes (e.g., residential, agricultural customers).
- Utility fuel costs, power costs, and resource portfolio management are reviewed by the PUC.
- PUC issues Certificates of Public Convenience and Necessity (not a siting permit) for IOU-built generation after the CEC completes its permitting process.

The PUC's generation-related activities would remain unchanged by the Plan.

Existing Responsibilities -- Transmission

The PUC issues certificates and sites new utility transmission projects, represents California before Federal rate setters, and passes the costs on to customers

- Reviews need, environmental impact (CEQA), and cost-cap.

- Represents California ratepayers in Federal transmission ratemaking, and passes through Federal Energy Regulatory Commission-approved rates to retail ratepayers.
- On average, several large transmission projects and a number of smaller projects are proposed annually. See table below.

Transmission Projects before the PUC June 2005

Certificates of Public Convenience and Necessity
Otay 230 kV Transmission Line: Final Draft EIR July 2005
Devers-Palo Verdes 500 kV Transmission Line: Final Draft EIR/EIS August 2006
Antelope-Pardee 500 kV Transmission Line: Final Draft EIR/EIS December 2005
Antelope-Tehachapi-Vincent 500 kV Transmission Line: Final Draft EIR September 2006
Permits To Construct
Silvergate 138 kV Underground Line and Substation: Final Draft EIR March 2006
Lakeville-Sonoma 115 kV Transmission Line: Final MND September 2005
Projects Under Study
Antelope-Mesa 500 kV Reconstructor and Rebuild
2 nd Antelope-Vincent 500 kV Line
Tehachapi Wind Farms Collector Substations
Tehachapi-Gregg-Tesla 500 kV Transmission Line
Tehachapi-Midway-Tesla 500 kV Transmission Line
Salton Sea Geothermal 230 kV Transmission Line
Delta 230 kV Substation

Under the Governor's reorganization plan proposal, the new Department of Energy would site utility transmission projects. There is some uncertainty about the division of labor, under the Plan, in representing California before the FERC in transmission ratemaking.

Existing Responsibilities – Natural Gas

PUC is the sole regulatory agency for investor-owned natural gas utilities in California: siting/infrastructure certification, terms of service, ratemaking, safety inspection.

- PUC-regulated natural gas utilities provide transmission and storage service to over 10 million customers - about 85% of natural gas consumed in California

CPUC regulates more than 90,000 miles of distribution pipelines, over 9000 miles of major transmission pipelines, and four major storage providers - capable of delivering well over 8 Bcf per day to California consumers.

- PUC represents the interests of California natural gas consumers at the Federal Energy Regulatory Commission (FERC).
- FERC-regulated interstate pipelines deliver about 85% of California's natural gas demand, roughly 5 billion cubic feet per day (Bcf/d) on average, with maximum capacity of over 8 Bcf/d.
- PUC also has regulatory jurisdiction over on-shore LNG facilities built within California.

Under the Governor's reorganization plan proposal, siting/infrastructure certification authority would specifically be done by the Department of Energy.

Remaining Responsibilities

The reorganization plan would transfer from the PUC to the proposed DOE the certification of electric and natural gas facilities including determination of need, siting, safety, and cost issues.

- PUC would continue to regulate the safety of the electric and natural gas facilities, as well as the reliability of the retail service and the retail rates thereafter charged by the utilities.
- Under this approach, the PUC would not be making the initial safety, reliability and cost determinations, which may occur in the certifying proceeding, but the PUC would be responsible for regulating the utilities after the proposed DOE made these initial determinations.

2. Describe PUC's ongoing oversight functions with respect to generation, transmission, and natural gas [facilities].

Generation

SBxx 39 requires the PUC to assure that generation facilities are maintained and operated efficiently and reliably.

- Facilities divested by the state's utilities during electric restructuring must be operated in a way that maintains the reliability of the state's electric system.

That law also requires that the PUC enforce Operation and Maintenance Standards for Power Plants.

- Adopted jointly with the ISO, as required by legislation.
- Legislation exempts Qualifying Facilities, nuclear, and municipally-owned power plants.
- Detailed standards apply to plants 50 Megawatts or larger which, among other things:
 - Must adopt and implement operation and maintenance plans tailored for that facility,
 - Must take reasonable steps to maintain the availability of generation under normal and emergency conditions,
 - Must remain ready to operate, unless the PUC, in consultation with the ISO, agrees that the plant may be mothballed or retired. (Note that this standard only applies only if the plant receives compensation for continued operations.)
 - Comprise about 40 power plants providing over 30,000 megawatts of generation.
- The implementation program was developed through workshops with generators to assure practicality and reasonableness.
- The PUC exempted federally-regulated hydroelectric plants

PUC staff assures that generators follow their own plans (and therefore comply with the standards) through inspections, data collection, and audits.

- PUC inspectors visit power plants during both forced and scheduled outages, to confirm the need for the outage and to maintain contact with plant staff.
- Using data from the Independent System Operator, inspection reports, and data collected by the North American Electric Reliability Council, staff targets plants for audit.
- During audits, staff spends a week on-site interviewing plant staff and checking plant equipment and records.
- If problems are found, the staff enters a meet-and-confer process with the generator to address those problems; if necessary, the staff can take formal enforcement action before the PUC.

Transmission

- **California Public Utilities Code §§ 8001 through 8057 give the PUC safety and related jurisdiction over all transmission lines in the state.**

- The PUC's General Order No. 95 contains rules that set minimum standards for the design and maintenance of overhead transmission lines.
- General Order No. 128 does the same for underground transmission lines.
- **PUC staff conducts periodic audits of electric utility maintenance records.**
 - Part of the audit is a field inspection of selected electric facilities. Violations of general orders are cited and the utility is required to make repairs.
 - In addition, PUC staff investigates electric incidents involving overhead and underground facilities where death, injury, extensive property damage, or vegetation fires occur.

Natural Gas

- **All investor-owned utility natural gas rates and terms of service are authorized by the PUC.**
 - Typical utility rates include both cost of gas (for those customers who choose to use the natural gas utility as their supplier) and the utility's operational and maintenance costs, including the cost of construction.
 - Natural gas storage providers have been authorized to offer "market-based" rates, and in some cases transmission/distribution utilities have been authorized to offer market-based rates for certain of their competitive services.
 - The PUC has natural gas safety inspection and enforcement authority, and has been certificated by the U.S. Department of Transportation, so it may adopt and enforce more stringent requirements than federal standards.
 - The PUC represents the interests of California natural gas consumers before the FERC. PUC activity before the FERC primarily concerns the rates and terms of service for interstate pipelines.

3. Why must the PUC's practice at FERC be independent from DOE? What would the PUC do differently?

- **The PUC is the state's economic utility regulator.**
 - The PUC has traditionally represented the state's interests before FERC due to the need to coordinate ratemaking and rate design policy on the federal and state levels.
- **The PUC can use its expertise and authority in retail rates** to represent California before FERC, which regulates wholesale rates.
 - PUC has core expertise, experience, ongoing relationship with FERC Commissioners and staff resulting in successful advocacy on behalf of California consumers before FERC.

- **Special provisions in federal statutes and FERC's rules recognize the special role of state commissions**, such as the PUC, which also regulate the rates of utilities.
- **PUC brings similar integration to gas and electric issues and rates.** Gas rates have a significant effect on electric rates. PUC uses its authority and expertise over retail gas and electric rates to best represent California.
- **Examples:**
 1. PUC independence enabled PUC to challenge Department of Water Resources contracts at FERC, resulting in approximately \$6 billion savings to state ratepayers.
 2. PUC is working with the Independent System Operator to develop a coordinated ISO market design/PUC resource adequacy system framework.